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Business and Economic Conditions

New York, June, 1957

General Business Conditions

THE tone of business reports has improved somewhat during May, although adjustment of inventories and production is still under way. Steel mills note a slight quickening of new orders, while textile markets have had their biggest flurry of forward buying since last October. Stock markets have been strong and commodity markets steady to firm. Business men find encouraging reading in many corporate earnings reports, particularly when the squeeze on profits proves not as bad as many had feared. Corporations are maintaining their high rate of capital expenditures, and increases in investment programs far outnumber decreases. Retail sales and employment are holding steady at high levels.

Reports like these effectively counterbalance the well-known soft spots and the slight sag in industrial output, which primarily reflects inventory adjustment. In some cases inventories are being reduced and almost everywhere the rate of accumulation has lessened. In April, the Federal Reserve Board's production index (seasonally adjusted, 1947-49 = 100) edged downward to 145 from the plateau of 146-147 which had been maintained since last October.

If the sag in the index continued in May, it did not go far. The end of the Suez crisis removed a major stimulus to crude petroleum and coal production, but by May output had steadied at a reduced level. Steel mill operations continued their downward drift during April and reached a low of 84.2 per cent of capacity in mid-May; subsequently they recovered slightly and were scheduled at 87.8 per cent in the week ending June 2. Automobile production appears to have leveled off at about 150,000 cars and trucks per week in mid-April and is scheduled at the same pace through midyear, in contrast to the sharp cutbacks during the second quarter of last year. In general, output of nondurable goods rose to a new record in April.

From all signs, the situation is one of continuing, but not deepening, adjustment. Nowhere are there convincing indications of a major change of direction in economic activity — either up or down — in the near future.

Eighteen Months of Level Output

During the past year and a half, output of manufactured goods has fluctuated within a fairly narrow range. At 145 in April, the index of industrial production was 2 points below the record set in December 1956 and 2 points above the level first reached in October 1955. During this period manpower needs for manufacturing production have actually declined. The number of factory production workers has dropped somewhat more than 1 per cent since the second half of 1955 and average hours worked per week have been reduced about 3 per cent. The moderate increase in aggregate output has been made possible by a gradual rise in productivity attributable chiefly to heavy investments in new factories and better machinery.

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In employment, as in production, smooth offsetting adjustments have taken place. From the viewpoint of the economy as a whole, job openings in trade, finance, government, and other growing service industries have more than offset the lessened opportunities in direct production lines. Within manufacturing itself, nonproduction jobs – office, sales, research, engineering, etc. – have been increasing at the same time that assembly-line jobs have been declining.

The latest round of adjustments has introduced a new element into the picture. For the first time since 1952, factory wages have leveled off and weekly earnings have declined for four months in a row. From December 1956 through April 1957 (the latest month available), average hourly earnings of factory workers remained unchanged at $2.05 per hour. Some wage increases have been negotiated and many employes have received pay boosts under earlier contracts with cost-of-living escalator clauses or provisions for automatic annual raises. These increases have been offset, however, by the declining volume of premium-rate overtime pay. The reduction in hours worked brought a factory worker's average weekly pay down to $81.80 in April from $84.05 in December. Earnings in April were still $2.81 higher than a year earlier, but when the worker went to spend them he found that they purchased somewhat less than a year ago because of rising consumer prices.

For a long while, workers in strongly unionized industries were able to stay one jump ahead of spiraling prices through constant pressure on the wage structure. But inflation has at long last caught up with the factory worker. The consumer price index crept higher in April to its eighth consecutive new record and was nearly 4 per cent above a year ago. Labor Department officials anticipate another rise in the index in May and possibly further increases in June and July.

Some of the rise, particularly in retail food prices, is seasonal in nature, but in large part the advances in prices of consumer goods and charges for services represent delayed adjustments to earlier cost increases. The continuing cost of living climb, month after month, bears out the report to Congress by the Joint Economic Committee in late May that there has been no lessening in inflationary pressures and that if anything the pressures may have increased.

Wage rate trends continue upward. In June and July a couple of million factory workers, mainly in the automobile and steel industries, will receive both cost-of-living escalator adjustments and "annual improvement" increases. Most auto workers, for instance, get an 8-cent wage boost in June – 2 cents an hour as a quarterly living cost adjustment and 6 cents as a contractual annual raise. Escalator clauses in labor contracts have become so widespread that a half-point rise in the consumer price index is estimated to add $80 million to annual payrolls. The higher labor costs resulting from these adjustments are expected to foster price increases, particularly in the steel industry, and so on around the circle.

Stability of Consumer Demand

The inroads of inflation upon purchasing power are demonstrated also by figures on consumer expenditures. Data of the Department of Commerce and the Council of Economic Advisers reveal that one widely used measure of living standards – "real" consumer expenditures per capita – was little if any higher in the first quarter of 1957 than it was in the third quarter of 1955, which to be sure was the peak of the automobile and home-building boom.

Aggregate consumer expenditures (seasonally adjusted annual rate) increased $17.2 billion, or 7 per cent, during the past year and a half. Fully half of this was an illusory expansion caused by rising prices. The remaining percentage increase was roughly equivalent to the rise in population. Just to hold per capita consumption steady in this era of high birth rates and declining mortality requires additional purchases of about $5 billion a year – more than total annual consumer outlays on all types of household appliances.

	Per cent change, third quarter 1955 to first quarter 1957	
Seasonally adjusted annual rates	Disposable income	Consumer expenditures
Total, in current prices	+8	+7
Total, in constant 1956 prices	+4	+3
Per capita, in constant 1956 prices	+1	*

*Change of less than 0.5%.

As the table shows, the increase in expenditures over this eighteen-month period has not fully kept pace with the rise in incomes. Probably the explanation is that consumers now are incurring debt more slowly and repaying more rapidly than in the summer of 1955. If ever there was a time when the consumers of this country were living beyond their current incomes it was 1955. Lured by "easy" credit and "easy" terms, consumers supplemented their incomes in that year with $5.5 billion of instalment debt and $12.4 billion of mortgage debt. Today, mortgage and consumer debts are still increasing, but at a much slower pace.

Thus, the failure of per capita consumption to increase need not be a cause for alarm; aided by rising incomes, consumers in general have

shifted from deficit financing to more nearly balanced budgets. Indeed, it is remarkable that consumers were able to make this adjustment without retreating from the record consumption rates at the height of the credit expansion.

From these figures the inference is that any increase in the gross national product, over and above what was needed to keep pace with population and the price level, has been absorbed by the business and government sectors. Since the climax of the auto and housing boom in late 1955, consumer spending has not been the dynamic factor in the economy; it has furnished vital support for the process of adjustment and gradual growth, but no major stimulus. Business and government expenditures have provided the spark.

The Securities and Exchange Commission reports that corporate security offerings in the first quarter set a new record of $3.6 billion, up 60 per cent from the same period last year. A heavy schedule of corporate and municipal flotations continues in the second quarter. Part of these offerings constitutes refunding of bank loans. Some may be anticipatory borrowing beyond immediate needs. In any case, the bulk of the financing represents an eventual demand for goods and services by business and government which will be the major factor sustaining economic activity during the balance of 1957.

Mortgage Credit in an Inflationary Economy

Fewer new homes were started this April than in any April since 1949. The National Association of Home Builders has proclaimed that the industry is "tottering on the brink of disaster." Several Congressional committees have been investigating means of providing more federal money to support home-building. Because of the far-reaching effects of home-building activity and the drastic nature of some of the proposals for stimulating the housing and mortgage markets, a closer look at the facts seems timely.

In the first four months of 1957, builders started privately-financed nonfarm dwellings at the rate of 925,000 a year. This represents a considerable letdown for the home-building industry, which for the past eight years has been turning out more than a million homes annually. From the recent 1955 peak of 1,329,000 units, starts decreased to 1,118,000 in 1956 and now to an indicated 1957 level below 1,000,000.

Owing to the rise in costs and the trend toward larger and more elaborate homes, the decline in expenditures for residential construction has been less pronounced. In the first four months of this year, housing starts, seasonally adjusted, were running 30 per cent below the 1955 peak; residential building expenditures, also seasonally adjusted, were down 15 per cent.

"Tight Money" and the Housing Market

Builders generally put the blame for the decline in housing activity on "tight money," although, ironically, the heavy and continuous drain of investment funds into mortgages has been a principal factor creating tight money. A variety of other elements has also contributed to the decline in home-building — consumer resistance to rising costs, upgrading of housing demand, localized overbuilding, and a diminishing supply of desirable building sites. Yet currently the difficulty of securing mortgages on terms which the average home buyer can meet overshadows all other factors.

Credit restraints have been general in their application and have helped check excesses without sending the economy into a tailspin. Indeed, new records have been set by the economy generally and by many individual industries. However, tightness in the supply of money and credit and the rise in interest rates hit the home-building industry harder than most other lines. Long-term credit, which is essential to home sales, has been in heavy demand to finance the rising volume of outlays on business plant and equipment, schools, roads, and other projects. Last year, the home-building industry took the lion's share of available investment funds, absorbing $10.9 billion of new mortgage money. At the same time, corporations added $8.0 billion to their long-term debt while net long-term indebtedness of state and municipal governments increased $3.3 billion. Over all, demand for long-term funds has outrun the flow of savings and forced interest rates up.

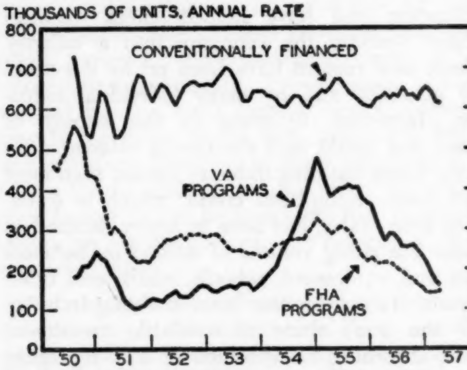
One reason the housing industry has been particularly sensitive to a tightened money market is its dependence on government-backed mortgages with their relatively inflexible interest rates. Here, for the most part, the explanation lies in the politics rather than the economics of home financing.

In the postwar period, the housing market has been substantially broadened by the government programs of insuring home loans through the Federal Housing Administration and guaranteeing veterans' mortgages through the Veterans Administration. With the home buyer's own credit backed by a government warranty, lenders have been willing to accept smaller down payments and longer maturities. This has enabled millions

of families with moderate incomes to buy their own homes. In 1955, seven out of ten homes selling for less than $15,000 depended on FHA or VA financing. However, advantages of government assistance have been coupled with the disadvantages of government regulation, especially the fixing of interest rates by law — not by the market place.

Fixed Interest Rates in a Booming Economy

The effects of political control over interest rates are shown in the accompanying chart. The number of homes financed conventionally — without government backing — has remained remarkably stable during the past three or four years. The interest rate on conventional mortgages is free to fluctuate with the market for long-term funds; thus, this type of financing has been able to attract sufficient money to maintain a steady volume of 600,000 to 700,000 units a year since 1950.



Nonfarm Dwelling Units Started, by Type of Financing (Three-month moving averages of seasonally adjusted annual rates)

In contrast, home-building activity under the FHA and VA programs has fluctuated widely, reflecting the state of the bond market and interest rate trends. Rates on VA-guaranteed loans are fixed at 4½ per cent, and FHA-insured loans were similarly restricted until December 1956 when the rate was advanced to 5 per cent. With prime new corporate bonds yielding better than 4¼ per cent, few lenders want to invest in 4½ per cent mortgages with substantial servicing costs. Even 5 per cent mortgages are not too attractive.

The increase in the FHA interest rate arrested the decline in FHA-insured starts, but, through April, had not brought much of an upturn. A somewhat more sensitive indicator, applications for insurance on new homes, jumped one fourth from the last quarter of 1956 to the first quarter of this year and advanced further in April. In contrast, applications under the VA program declined one sixth in the same period.

In recent hearings before Congress, one witness after another suggested that these rates be allowed to respond more freely to market conditions or, at the very least, that the VA rate be made equal to the FHA's. George Goodyear, president of the National Association of Home Builders, put his case this way to the Subcommittee on Housing of the House Banking and Currency Committee:

> Money cannot be borrowed by anyone — including the Government itself — except at terms much higher than a year ago. For example, the first step toward an increase in the interest rate on Savings bonds to 3¼ per cent has been taken to counteract the trend of investment away from such bonds and into other higher yielding securities. The slackening of the flow of money into mortgage loans reflects exactly the same investment considerations.
>
> Until this policy is reversed — until 4½ per cent again becomes a marketable rate — it is apparent that either GI loans must be allowed to offer higher interest or the GI loan programs will disappear. An interest rate cannot be fixed by fiat or decree; it must recognize the financial facts of life.

Congress has tended to regard freeing interest rates as entirely out of the question, and on April 2 the House Veterans Committee refused to authorize an increase in the VA mortgage rate to 5 per cent, thus effectively killing that move for this year. The committee's chairman, Representative Olin Teague, commented: "After all, my committee is supposed to be protecting the veteran. It is not our responsibility to bail out the home-building industry." The distinction is laudable, but the effects are questionable. Veterans may question just how much they are being "protected" when they find lenders unwilling to make 4½ per cent VA loans at par and builders unwilling to absorb the substantial discounts charged on VA mortgages.

Seeking a "Magic Well" of Credit

In effect, Congress turned its back on the time-honored principle that the way to obtain an adequate share in a competitive market is to pay a competitive price. Although warned by Under Secretary of the Treasury W. Randolph Burgess that "there is no 'magic well' of untapped available credit," Congress is now seeking out ways of providing more mortgage funds for the VA and FHA programs outside the normal market mechanism. Such an approach may provide a temporary tranquilizer but not a cure for the troubles of the mortgage market.

The three main proposals advanced before Congress for supplementing the supply of private mortgage money were (1) use of $1 billion or more of the National Service Life Insurance trust fund to purchase VA mortgages, (2) increased direct mortgage lending by the Veterans

Administration, and (3) a multi-billion-dollar increase in the mortgage purchase operations of the Federal National Mortgage Association (FNMA, more familiarly known as "Fannie May"). The illusory nature of these schemes was outlined by William McC. Martin, Chairman of the Federal Reserve Board, in testifying before the Subcommittee on Housing of the Senate Banking and Currency Committee:

> None of these proposals operates to encourage new savings, that is, to increase the total flow of funds from which all demands for long-term investment must be met. All three, furthermore, require that the Federal Government borrow in the market more than it would otherwise borrow. This additional borrowing by the Treasury would not only be inflationary but would tend to raise market rates of interest still further and thus increase the barrier that is already impeding the flow of private investment funds into VA mortgages.
>
> . . . Hence, tracing the effects of these proposed programs, we find that under them the Federal Government would have assumed large additional responsibilities, without, in the end, restoring the market for VA mortgages. In a time when strenuous efforts are being made to reduce Government expenditures, it should be kept in mind that outlays of this nature by the Federal Government, even though they may not appear in the budget, place the same strain on money markets and have the same inflationary effect on the economy as an increase in budget expenditures not covered by taxes.

Each of the three proposals was approved by a House committee, but—aided by threats of a Presidential veto—the first two items were dropped from the housing bill finally passed by the House.

The House bill authorizes FNMA to draw upon the Treasury for $1,250 million more with which to purchase mortgages and provides $700 million for its "special assistance" programs. The Administration's original requests were $500 million and $300 million, respectively. It is worth noting that this extra $1,150 million of outlays authorized by the House offsets a large share of the widely headlined budget cuts the House has made to date.

It is also interesting to speculate that the $1,950 million allocated for relief of the mortgage market could, together with budget surpluses currently anticipated, provide the basis for a sizable reduction in personal or corporate income taxes. In terms of providing economic incentives and a general stimulus to business, there is little question which application of the funds would be more effective.

At the end of May, the Senate passed an omnibus housing bill providing $1.6 billion for mortgage purchases—$350 million less than the House bill. The differences will be ironed out in conference.

In trying to avoid the judgment of the market place on VA and FHA interest rates, the Government may merely dig itself deeper into the morass. As Samuel Neel, general counsel of the Mortgage Bankers Association, told Congress:

> The one thing we cautioned against, and still do in connection with any central mortgage facility, was its use to try to support a submarket interest rate. . . . If you try to use special funds, appropriated by Congress through Fannie May, or any other way, to try to pay more for something than the people in the open market are willing to pay for it, there is practically no limitation as to what you will be called upon to put up.

In the field of mortgage financing, the ability of Congress to repeal the law of supply and demand may turn out to be no greater than it has been in agriculture. Meanwhile, we have the development of another subsidized industry, adding further to the burdens of the taxpayer.

Liberal Terms As a Housing Stimulus

Other moves to revive the housing market have involved the liberalization of FHA down payment provisions. Early in April the FHA cut its requirements to the legal minimum of 5 per cent of the first $9,000 of appraised value and 25 per cent of the value above that. The House approved new minimums of 3 per cent down payment on the first $10,000 value, 15 per cent of the next $6,000, and 30 per cent on the amount above $16,000. Such a move serves mainly to arouse false hopes in potential home buyers who have not yet saved up substantial down payments. Lenders, faced with more demands than they can satisfy anyway, naturally prefer to take mortgages in more conservative amounts against appraised valuations. Also, their money can in this manner stretch over more housing units.

There are signs that the mortgage market has adjusted to a point at which it can support something like the current level of home-building. Helped by interest rate readjustments, money is flowing into mortgage investments although of course at a lower rate than a year ago.

A Natural Pause

Appropriating more public funds to subsidize the mortgage market can prop home-building, though at the expense of putting the home builder at the mercy of political winds, making money harder to raise for other borrowers, spurring inflation, and pushing off still farther into the future the time when taxes can be cut.

It would be more natural for the home-building industry to settle into a lull for a period as a reaction from the rapid pace of the decade past. Family budgets are being strained by the costs of bringing up the enlarged families which will expand markets for homes some years hence.

The home-building boom, financed at constantly increasing prices and costs, has been an integral part of the price-wage spiral. Outstanding home-mortgage indebtedness has experienced a fabulous, accelerating growth since 1945 — all the way from $19 billion to more than $100 billion. It was inevitable that housing, which depends so much on borrowed money and had been demanding more and more with each passing year, should fall early victim to restraint on credit expansion. Savings have shown no comparable acceleration. What brought matters to a head in 1956 was the need of industry to tap the savings flow in a more substantial way to finance plant and equipment outlays — also at high and rising costs. At the same time, government was making greater demands upon available material resources.

We have in the housing industry a laboratory case of an effort through restraint on credit to resist price-wage inflation. So far, with all the discussion of the desperate plight of the industry, the advance of construction costs has been slowed but not stopped.

From 1945 to 1955, home construction costs, as reported in the Survey of Current Business, rose at an annual rate of 6 per cent a year compounded. This compares with an average annual rise of 4 per cent a year in per capita disposable income. Despite the setback in home-building in 1956, residential building costs rose 4½ per cent. With a further decline in activity this year, the cost curve still pushes upward — though at a slackened rate. Any boost in housing starts resulting in new upward pressures on costs and driving home prices still higher would be no favor to the would-be homeowner.

A forthcoming publication of the National Bureau of Economic Research on *Federal Lending and Loan Insurance* finds that government stimulation of easy mortgage credit has not been an unmixed blessing for the home buyer. The study notes that:

> . . . a considerable part of the effect of the federal housing credit programs during the post-World War II period would seem to have been to raise the costs of residential construction and the prices of homes above what would otherwise have prevailed.
>
> . . . One cannot escape the sharp contrast between the two postwar periods: the period after World War I, lacking the urgent stimulation of liberalized home mortgage credit, not only produced relatively more housing but did so virtually without cost and price inflation, though building costs rose slightly in what was a period of sagging price levels for the economy generally; the post-World War II expansion, on the other hand, which was relatively modest as compared with the demographic trends of the period, was characterized by a marked inflation of building costs and housing prices.

Whether Congress, home builders, and the wage-price spiral itself will let construction costs stabilize is something else. Nevertheless, there are few lines of activity more vulnerable than home-building to the tight money and savings shortage that price inflation brings in its train. It is therefore a paradox that builders should be in the forefront advocating bigger federal spending, a prime inflationary force in the present situation. The healthier solution is to seek out buyers who want to own a home enough to save up a substantial down-payment and not rely so much on other people's savings.

Farm Policy — A Study in Failure

Latest reports from the nation's farm areas indicate that 1957 crop production will come close to last year's record level — despite all the Government's efforts to curtail output.

The U.S. Department of Agriculture estimates plantings of 59 principal crops this year will approximate 334 million acres, 12 million below 1956 and smallest since 1917. Responsible for this reduction are lower acreage allotments for some restricted crops, retirement of land under the Soil Bank, and the drought of late 1956 and early this year.

The paradox of another bumper crop from the smallest plantings in 40 years serves as another reminder of the failure of government attempts to control crop production.

This failure, along with other serious shortcomings in the farm program, have stirred up a public clamor on the international as well as the domestic scene. Indications of this are evident on all sides.

Foreign producers of agricultural commodities claim that we are ruining their markets by "dumping" farm surpluses. The domestic textile industry charges that cut rate sales of surplus cotton give foreign manufacturers a competitive advantage by being able to buy American cotton at less than cost. Letters from voters pour into Congressional offices complaining about the multi-billion-dollar farm program which creates ill will abroad, burdens the taxpayer, and perpetuates the build-up of mountainous, price-depressing crop surpluses.

All this attests to the growing awareness that national farm policy is in dire need of review.

Soil Bank Cuts Production Less Than Acreage

The Soil Bank — authorized for four years beginning with some 1956 crops — has two aims: cut production enough below current requirements so as to reduce accumulated crop sur-

pluses; and cushion the impact of smaller plantings with government payments to farmers.

Retirement of land this year under the acreage reserve part of the program amounts to 21.4 million acres. About seven million acres are pledged under the conservation reserve phase—a long-term program to convert cultivated land to forage crops, trees, and water storage.

The over-all reduction of some 28 million acres constitutes about 8 per cent of last year's total planted acreage. Nevertheless, output, as indicated above, appears headed for a near record.

There are many reasons for this. Although farmers are being paid to take 28 million acres out of production they really cut back only about 12 million. They have offset more than half the acres placed in the Bank by planting uncontrolled crops on some land normally fallowed or in hay and pasture.

The biggest Soil Bank participation is in areas hard hit by the drought (accounting for the good sign-up of wheat) and in poor land which normally produces very little. As long as price supports are high, farmers try to produce as much as possible on remaining acreage.

Improvements in agricultural machinery and methods enable farmers to turn out bumper crops despite smaller plantings. Secretary of Agriculture Benson pointed this up in a speech before the National Cottonseed Products Association in Washington, D. C., on May 21:

> . . . A technological explosion is occurring on American farms. Since 1940 production per worker has nearly doubled. Cotton production per acre has increased 65 per cent. These changes make it virtually impossible to curtail agricultural output with the type of controls acceptable in our society. . . .

Flooded Drought Areas

Another obstacle to the success of the Soil Bank this year is the improvement in crop prospects, particularly in the Great Plains drought areas which have had considerable rain and snow. While some drought areas ironically have been transformed into temporary flood disaster areas, the betterment of crop prospects generally is expected to outweigh the damage.

As a result, the Agriculture Department hiked its forecast of the winter wheat crop, as of May 1, to 703 million bushels—78 million above its December estimate. This is only 4 per cent below last year's crop despite retirement under the Soil Bank of 10½ million acres, equal to 25 per cent of plantings for last year's crop.

Finally, more than three quarters of the nation's farmers have not signed up for the Soil Bank. They apparently feel that, with average weather, they can make more money this year by planting their full allotments, even with somewhat lower price props.

The House of Representatives, in a surprise move on May 15, voted to halt the acreage reserve phase of the Soil Bank after this year. This action was prompted, in part, by findings of "lax handling" of the Bank and discovery of a variety of "gimmicks" in its operation. For instance, investigators found some cases where government-owned land was leased to private operators who put it in the Soil Bank. It was a profitable operation because payments from the Bank exceeded rental costs. Similarly, a House inquiry showed that some farmers received government payments last year for crop failures on the same land on which they were paid not to grow crops. Some of these difficulties stem from the rush to put the Soil Bank into operation on short notice.

Secretary Benson believes many of the Soil Bank's shortcomings can be remedied and that it is necessary as a temporary measure to aid in the transition from a government-supported farm economy to one more capable of standing on its own feet.

Moving a Mountain

Meanwhile, the Administration is actively engaged in disposing of farm surpluses. Since mid-1953, it has moved some $9 billion worth out of government hands to consumers here and abroad.

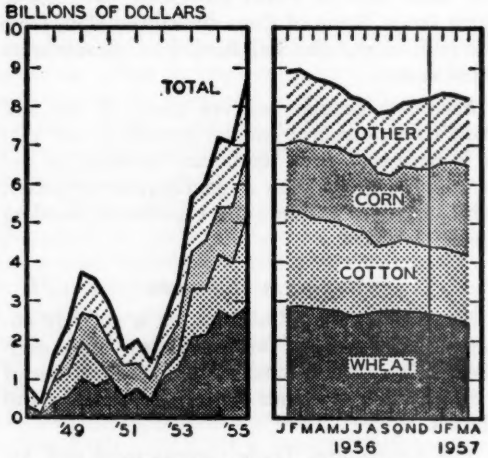
The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) has been an important factor in facilitating these efforts. This act provides for sales for foreign currencies, authorizes donations to friendly countries to meet famine or relief requirements, and allows the bar-

U.S. Agricultural Exports

ter of surplus farm products for foreign metals and other strategic materials.

Public Law 480 and "cut-rate" dollar sales of cotton and other products have helped push our farm exports to record levels and have kept down Commodity Credit Corporation (CCC) surpluses. The extent of government financing of farm exports shows up in the preceding chart.

Despite these yeoman disposal efforts, CCC investment in farm products on March 31 totaled $8.2 billion, only 8 per cent under the record level of February 29, 1956. Based on budget estimates, CCC stocks on June 30 will approximate $7.6 billion – 8 per cent below a year earlier. By June 30, 1958 these stocks are still expected to exceed $7 billion.



CCC Investment in Farm Products

Considering the scope of disposal efforts, past and prospective reductions in CCC stocks are relatively small. Furthermore, they have been costly with every indication of becoming even more expensive.

Net realized program loss on price-support operations for the nine months ended March 31 totaled a record $916 million, against $689 million for the same period a year earlier. Since their inception in fiscal 1932, farm price and income support programs have resulted in losses of nearly $12.7 billion. These losses are above and beyond costs of other farm programs carried on during the past 25 years.

Farm Budget Over $1,000 per Farm

The magnitude of federal farm programs, of which price supports are a major part, is more vividly shown in the record $5 billion farm budget for the coming fiscal year. There are about 4.8 million farms in the U.S. so this budget averages more than $1,000 per farm. When divided among the approximately two million commercial farms, whose owners and operators derive most of the benefits from federal programs, the proposed budget averages $2,500.

These heavy costs would be borne more willingly if taxpayers could feel some assurance of their contributing to a solution of farmers' problems. Unfortunately, present programs hold forth no such promise.

Secretary Benson, in a letter last month to Senator Allen J. Ellender, Chairman of the Senate Agriculture Committee, pointed up the basic fault in farm policy:

> Controls are not effective in reducing over-all agricultural production, despite the severe restrictions they impose on farmers' freedom to produce and market. . . .
>
> Since we apparently cannot legislate scarcity, we must learn how to live with abundance. If any product is abundant, it cannot long be priced as if it were scarce. . . . We cannot build markets by pricing ourselves out of them.

Using cotton as an example, he stated price supports have seriously damaged the competitive position and the long-run market for farmers. Most of the growth in the textile market has gone to foreign-produced cotton and to man-made fibers at home and abroad.

As a result, our cotton exports dropped from nearly 11 million bales in the 1926-27 crop year to only 2.2 million in 1955-56. While cotton exports this season are estimated at about 7.5 million bales, this high rate is made possible only by sale of government-owned stocks at prices well below costs of acquisition.

Lower Supports Needed

While the Administration last year won the battle of flexible versus rigid price supports, the victory was strictly one of principle. Support on basic crops and some non-basic products is set in accordance with formulas based on supply and demand for each commodity. This has worked out so that supports have not flexed appreciably below the 90 per cent level.

Under the formula, when the supply of a commodity goes down the support level must be raised; conversely, when the supply increases the support level may be lowered. In the case of basic crops and certain other products, the support can never go below 75 per cent. Even this level, as Secretary Benson has indicated, is too high to encourage the needed adjustments within agriculture.

Mr. Benson, in a letter to the House Agriculture Committee on May 28, asked that the current 75 per cent of parity floor for supports on basic crops be abandoned. As a replacement, he

suggested that (1) the Secretary of Agriculture be given the authority to set supports anywhere from zero to 90 per cent, or (2) the floor be lowered to 60 per cent of parity. While strongly favoring the former, he told the committee "it is not our purpose to scrap farm programs or subject farm people to the unrestricted forces of the free market. Rather our purpose is to move toward expansion of markets and more freedom for farmers to produce with less reliance on price support levels determined by rigid formulas."

Probably the greatest drawback in the present flexible program is that, as crop surpluses are worked down, it becomes mandatory to raise price supports. The end result is further stimulation and expansion of production, leading to new surpluses and more controls on farmers. The Secretary also favors elimination of these provisions in present law.

The self-defeating aspects of the present system were aptly pointed up by Secretary Benson in his speech before the Cottonseed Products Association, mentioned earlier:

> Gentlemen, isn't this just about where we came in? Wouldn't this take us back to just about where we started? Isn't this the basic situation that brought on all our present difficulties – support at 90 per cent of parity that lost cotton its markets – then production controls that tended to make permanent the loss of markets – and that reduced efficiency so that the average unit cost of producing cotton remains too high to compete in the market?

The Secretary took a step in the right direction on April 19 when he set marketing quotas on the 1958 wheat crop and lowered its support to the minimum of 75 per cent of parity – $1.78 per bushel, compared with $2 for 1956 and '57 crops. To become effective the marketing quotas must be approved by two thirds of the wheat growers voting in a referendum on June 20.

Many Farmers Back Lower Supports

Despite clamor for high price supports by many members of the Congressional farm bloc, many farmers and farm leaders recognize the need for agriculture to depend less on government subsidies.

Charles B. Shuman, president of the American Farm Bureau Federation, has long opposed high price supports and government controls. In a speech before the Inland Daily Press Association in March, Mr. Shuman stressed the advantages of freer markets:

> Today the effects of price-fixing in the government-supported crops such as cotton, wheat, rice, and corn furnish a sharp contrast with the free livestock market. In January 1956, the average farm price of hogs was $10.90 per hundred. Farmers cut hog production 6 per cent in 1956. As a result, the farm price of hogs was up to $17.30 per hundred in January 1957, or 58.7 per cent higher than the same month a year earlier. The hog market, free of the price-fixing influence of a government program, was able to make an adjustment and clean the market.

Without the federal price-prop umbrella over agriculture, of course, many marginal operators would be forced out of farming. The Des Moines (Iowa) *Sunday Register*, in the heart of the Corn Belt, faced up to this in an analysis of the farm problem on May 12. The editors, certainly not unsympathetic to the farmer, came to this main conclusion:

> . . . the primary solution to agriculture's problem of over-supply is to help people get out of farming – to help them find jobs in other lines of work. Too many people are sharing the income which agriculture can earn in the American economy.

With employment and payrolls in the economy generally at a record level, and with a sellers' market in farm real estate, there is no better time than now to encourage excess workers in agriculture to switch to other pursuits.

The Government and the Clock

These are days of hustle and hurry. The desire to get things done quickly is everywhere apparent. The bigger and more complex the problem the greater the challenge to solve it – and quickly. Despite the rapid and widespread economic and social gains achieved in this country, there exists what amounts to almost a national impatience for even faster progress.

In the business community, billions are spent each year on research and on machines and equipment to satisfy the national appetite for new and improved products and to produce more in less time at smaller cost. Among people, there has been a tendency since World War II to get married earlier, to buy more on credit so as to be able to drive a car or buy a TV set without having to wait until the purchase price has been saved.

Nowhere is the hustle-and-hurry trend more apparent than in the field of public affairs – especially at the national level. The Federal Government has widened and accelerated its efforts to "promote the public welfare" and "strengthen personal security."

1873 and 1890

This was epitomized not long ago by Arthur Larson, head of the United States Information Agency. As the author and chief philosopher of "Modern Republicanism" he defined it this way: "Never put off until tomorrow what should have been done in 1873."

President Eisenhower, in his press conference of April 10, spoke in a similar vein. In what

sounded reminiscent of the late President Franklin Roosevelt's statement in the mid-1930's that the Government cannot "go back to the horse and buggy days," Mr. Eisenhower said:

Now I happen to believe that in this day and time we cannot use the governmental processes that were applicable in 1890.

We have got to adapt the great principles of the Constitution to the inescapable industrial and economic conditions of our time, and make certain that our country is secure, and our people participate in the progress of our economy.

One cannot question the literal truth of the President's observations. Nevertheless, there is a broad tendency to identify the progress of people with measures taken by government: for example, to tax income and wealth away from some and distribute it to others and to assume responsibilities previously left to individual initiative. One of the great questions of this day is whether such measures, while giving seeming benefits over the short run, may not be undermining the bases of individual initiative and capital accumulation which have built this country in the past and must underlie the progress that everyone eagerly wants for the long term future.

A Case in Point

There is a useful lesson to be drawn from the experience of Great Britain, which is a generation ahead of us in the development of a Welfare State, in the substitution of government enterprise for private enterprise and of socialism for capitalism. We should not be in such a hurry that we neglect to observe what happens when government invites dependence of people on benefits financed by crushing taxes on individual initiative and capital accumulations.

The British Isles are densely populated and some emigration is natural. But the outflow has tended to increase, particularly among skilled workers, technicians and professional people. These are the people who have the most to offer to the national production; they are the ones socialism counts on tamely submitting to extortion so others can get free benefits of all sorts.

Sir Thomas Sopwith, chairman of Hawker Siddeley, British aircraft manufacturer, pointed up the influence of the tax burden in the company's 1956 annual report:

We are losing too many of our skilled technicians and craftsmen to countries whose more enlightened fiscal policies enable the individual to retain for himself a much larger share of the rewards accruing to him after long years of study and effort.

The *Wall Street Journal* of March 28 summed up the situation with a quote from a British soldier and author:

Why is it that so many young men of talent should be seriously considering leaving the country of their birth and working abroad? And how have we drifted towards this new calamity? For calamity it is. There is a one-word answer to these two questions: taxation. Our young men (and women) with intelligence and ambition find their progress blocked by a system which turns what should be a reward into a penalty.

Disenchantment with the "free" benefits of the welfare state is evident in this letter-to-the-editor printed January 19 in the pro-Labor British weekly, *The New Statesman and Nation*:

What does Socialism offer to people like me . . .? . . . Whether we go into industry or the professions, Labour [Party] offers us the continuation, with a possibility of severe increases, of the present system of penal taxation, which will prevent most of us from making any adequate return to our parents for six or seven years' sacrifice, or providing properly for our own old age, discourage us from marriage, and deprive us of any incentive to do more than the minimum of work or accept the minimum of risk and responsibility.

Turning Back the Clock

In considering the role of Government in this country today, no one is seriously urging that the clock be turned back to 1890 even though the "Land of Opportunity" around the turn of the century was beckoning to its shores more immigrants than at any time before or since. The country and its laws are immeasurably more complex. Its problems and responsibilities have been widened by the role of world leader and complicated by the jet age and nuclear fusion.

One might hope, however, that the Government would turn back the budget from the $72 billion proposed for the next fiscal year to the $60 billion level envisioned by Mr. Eisenhower in 1952. Or even to the $65 billion level of 1955.

When the Government tries to hasten progress by rushing in to do more and more for the people, individual self-reliance dwindles and local authority diminishes. Since "prosperity" and jobs are "guaranteed" by the Government – usually through inflation – the desire to work hard and be thrifty is lessened. Individual and business incentives are dulled by heavy tax loads. The wellsprings of real progress – individual enterprise and capital accumulation – are choked off.

The concern of the people should not be with the dangers of turning back the clock – and the Government's role – to the America of 1890. Rather, it should be the danger of turning it ahead to the Great Britain of 1957.

The "Miracle Mile"

This is a day of heated controversy over the growing Federal Government budget, and assertions by public officials that all the program proposals are framed in response to the essential needs of the nation and the urgent demands of the people.

It is refreshing now and then to have reminders that this "ain't necessarily so."

One such reminder was provided a few weeks ago by the citizens of Nassau County, Long Island, who jammed an 800-seat auditorium in the Manhasset high school to protest a $5,000,000 highway project to bypass Manhasset's "Miracle Mile" shopping district. The prime objections were that the bypass would create traffic bottlenecks and require the demolition of numerous homes and school playground areas.

Two officials of the State Department of Public Works, which held the public hearing, commended the project. The selling point emphasized was that the project would be "free," paid for by state and federal funds:

> This money has got to be spent. I'd like to have it spent up my way but so long as it's federal money it might as well be spent here.

To which Congressman Stephen B. Derounian retorted: "This philosophy is the reason our national budget is so high."

A further example of this philosophy was pointed up by Raymond Moley in *Newsweek* of March 25. Steve Stahl, executive secretary of the Oklahoma Public Expenditures Council, told a Congressional Committee in Washington that his State needed no federal aid for school construction. To which Congressman C. M. Bailey of West Virginia replied: "If the money is not spent for school construction it will be spent for something else."

The money won't be spent on the Manhasset project; Governor Averell Harriman, in response to public demands, cancelled it on May 9. Oklahomans may build their own schools, without federal subsidy or control, as in the past. But the pity of it is that, unless the Congress acts to cut appropriations, the money *will* be peddled out somewhere or other.

Federal Funds for Free

It would seem from such illustrations that the Federal Government might be encountering some difficulties finding ways to dispose of its $70-odd billion of revenues. But more generally people rise to the opportunity of getting something for nothing. Government officials and Congressmen conjure up "needs," hold out the bait of federal funds for free, and develop pressures from all around the country for program authorizations and appropriations. President Eisenhower spoke last month of a visit from a delegation of mayors seeking funds for "urban redevelopment." Commerce Secretary Weeks in a letter discussing the budget problem mentions 900-odd municipalities that protested a proposed cut of $50 million in a program to help provide water and sewage-treatment facilities. Commented Secretary Weeks: "Why the Federal Government should hand out money to municipalities all over the country for this purpose, I would not know."

Small wonder that so many officials in Washington are impressed by the "needs" of the people and the impoverishment of the local community. The simpler solution of reducing federal tax exactions is ignored. There is no wealth in Washington that was not taken out of the pockets of the people.

To be sure, there are needs, very real needs, at the local level. Financing problems arise from the drain of federal taxes from local communities, and are compounded by the inflation which lavish federal expenditures decree. The financial requirements get further magnified out of all proportion by the illusion that federal projects do not cost anything.

Even the citizen who recognizes that someone bears the costs has no incentive to hold back his demands because he figures other citizens and communities are going in for all they can get. It becomes a struggle of competitive political influence, defying every economic law that says a project should be worth its cost.

One result is that even individuals in comparatively modest circumstances have to give up 10 per cent or more of their earnings in federal income taxes, and business firms more than half what they make. All this, plus inflation, to finance wasteful projects and to maintain bureaucracies to give back — less a charge for gift wrapping — what belongs to the community.

The growing mass of hand-out programs is all the more to be deplored at a time when the Federal Government demands so much of what we produce for national defense and has so many responsibilities the private citizen and local community cannot possibly undertake.

President Eisenhower was on solid ground four years ago when he stated:

> Getting control of the budget requires . . . that state and local governments and interested groups of citizens restrain themselves in their demands upon the Congress that the Federal Treasury spend more and more money for all types of projects.

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